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December 19, 1996

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Subject: Federal-State Joint Board on Universal
Service, CC Docket No. 96-45.

Dear Mr. Caton:

Enclosed please find the original and six copies of the General Services Administration's Comments for filing in the above-referenced proceeding.

Sincerely,

Jody B. Burton
Assistant General Counsel
Personal Property Division

Enclosures

cc: International Transcription Service
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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of

Federal-State Joint Board on
Universal Service

CC Docket No. 96-45

**COMMENTS OF THE
GENERAL SERVICES ADMINISTRATION**

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December 19, 1996

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Summary

In large measure, GSA supports the Board's recommendations. However, GSA objects to several of the Board's specific recommendations - particularly the proposal to continue the Carrier Common Line ("CCL") charge and to use proxy models to determine loop costs.

The Board recommends continuation of the CCL charge, but GSA believes that the charge should be eliminated to avoid market distortions. The Board also recommends the use of proxy cost models to determine universal service support levels for most carriers. However, costs derived from proxy models are intrinsically less accurate than actual cost data. Therefore, GSA recommends that the Commission use models only after they have been thoroughly evaluated.

GSA concurs with the Board's list of services to be covered by universal service support mechanisms. GSA particularly endorses the Board's inclusion of voluntary access to toll-blocking services, where these are available.

In response to the Commission's questions concerning administration of the proposed programs, GSA recommends that support for high cost areas be obtained through a competitively neutral plan funded by services provided in lower than average cost areas. However, low-income programs should be funded by an assessment on all carriers providing services.

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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

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**COMMENTS OF THE
GENERAL SERVICES ADMINISTRATION**

The General Services Administration ("GSA"), on behalf of the customer interests of the Federal Executive Agencies ("FEAs"), submits these Comments in response to the Commission's Public Notice ("Notice"), DA 96-1891, released November 18, 1996. In that Notice, the Commission requested comments on the Recommended Decision of the Federal-State Joint Board on Universal Service ("Board").¹ The Commission also requested comments on several specific issues not resolved in the Recommended Decision.

I. Introduction

Pursuant to Section 111(a) of the Federal Property and Administrative Services Act

¹ Recommended Decision, FCC 96J-3, released November 8, 1996. ("Recommended Decision").

of 1949, as amended 40 U.S.C. 759(a)(1), GSA is vested with the responsibility to represent the customer interests of the FEAs before Federal and state regulatory agencies. Collectively, the FEAs are probably the largest user of telecommunications services in the nation. On the FEAs behalf, GSA has consistently supported the Commission's efforts to bring the benefits of competitive telecommunications markets to all consumers.

To implement the universal service requirements of the Telecommunications Act of 1996 ("1996 Act"),² the Commission must balance the principles of economic efficiency with the universal service goals originally articulated in the Communications Act of 1934.³ In these Comments, GSA responds to the Board's Recommended Decision and suggests several modifications to assist the Commission in achieving this balance.

II. Comments on Joint Board's Recommended Decision

The Board recommends a number of important changes to existing procedures that will provide for a more explicit and predictable universal service support system. In large measure, GSA supports the Board's recommendations. However, GSA objects to several of the Board's specific recommendations - particularly the proposal to continue the Carrier Common Line ("CCL") charge and to use proxy models to determine loop costs.

² Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996)(to be codified at 47 U.S.C. Sec. 151, *et seq.*).

³ Communications Act of 1934 (47 U.S.C. 151 *et seq.*).

A. Universal Service Principles

In its April 12, 1996 Comments, GSA urged the Commission to consider economic efficiency as a fundamental universal service principle.⁴ GSA recommends that the Commission explicitly recognize economic efficiency in evaluating the rates for recovering local loop costs. For economic efficiency, the rate for a service must reflect the underlying costs associated with providing that service. For example, rates for interstate services should reflect interstate costs, while rates for intrastate services should reflect intrastate costs. Similarly, non-traffic sensitive costs should be recovered through non-usage-sensitive rates.

B. Subscriber Line and Carrier Common Line Charges

Central to the existing universal service support scheme is the recovery of interstate local loop costs through the Subscriber Line Charge ("SLC") and the CCL charge. In its Recommended Decision, the Board recommends leaving the existing SLC and CCL charges largely in tact.⁵ GSA indicated in its April 12, 1996 Comments, however, that the CCL charge is antithetical to economic efficiency. GSA believes that the usage-based CCL charge is not the appropriate mechanism for recovering the interstate portion of local loop costs, and therefore urges the Commission to eliminate the charge entirely.

⁴ In this proceeding, CC Docket No. 96-45, GSA filed Comments on April 12, 1996, Reply Comments on May 7, 1996, and Comments on August 2, 1996.

⁵ The Board recommends eliminating the Long Term Support portion of the CCL charge and recovering the shortfall from a different source.

Local loop costs are almost entirely independent of usage. The CCL charge, on the other hand, directly depends on usage. As GSA has explained, economic efficiency requires that the rates for a service reflect both the amount and structure of the underlying costs of providing that service. Clearly, recovering non-usage sensitive loop costs through usage-based charges does not meet this standard.

The California Public Utilities Commission recently eliminated the intrastate CCL charge, in part because of the principle of economic efficiency.⁶ In eliminating the CCL charge, the California Commission highlighted the fact that this charge encouraged interstate exchange carriers to by-pass local exchange networks to avoid usage-based CCL charges. Interexchange carriers would be particularly motivated to provide high volume users with dedicated access to their own networks. By eliminating the CCL charge, the California Commission removed carriers' incentives to deploy telecommunications plant inefficiently.

For these reasons, GSA urges the Commission to eliminate the interstate CCL charge. Such an action would remove the market distortions that this charge creates.

C. Support for Rural, Insular and High Cost Areas

Under the existing universal service mechanisms, support for carriers operating in rural, insular and high cost areas is determined on the basis of a carrier's embedded loop

⁶ Decision 96-02-023, California Public Utilities Commission, *In the Matter of Alternative Regulatory Frameworks for Local Exchange Carriers*, Docket I.87-11-033, *et al.*, issued February, 7, 1996, pp. 29-31.

costs relative to the national average.⁷ However, the Board does not recommend using embedded local loop costs for most carriers. Instead, the Board recommends using loop costs derived from a proxy model.⁸ Under this scheme, universal service support levels would be determined by comparing a carrier's proxy costs to a national benchmark established by the Commission.

GSA believes that loop costs derived from a proxy model are intrinsically less accurate than a carrier's actual costs. Indeed, as GSA explained in the Commission's Universal Service proceeding, no set of proxy factors can completely predict the costs necessary to serve a specific geographic area.⁹ As a result, some carriers would receive universal service support where actual loop costs do not justify such support, while other carriers would be denied support where actual loop costs warrant such support.

While the Board recommends the use of a proxy model, it does not identify a specific model. Rather, the Board urges the Commission to work with state regulatory agencies to develop a model that the Commission could adopt before the May 8, 1997

⁷ 47 C.F.R. Section 36.631(c)&(d).

⁸ Non-rural carriers would be required to use a proxy model to determine its loop costs. Rural carriers would be permitted to use their embedded loop costs until three years after the Commission adopts a proxy model. After that time, rural carriers would be required to use the proxy model.

⁹ Universal Service proceeding, GSA Comments, September 12, 1995, pp. 9-22; GSA Reply Comments, November 9, 1995, pp. 10-11.

deadline required by the 1996 Act.¹⁰ The Board recommends a set of criteria that it believes the Commission should employ to evaluate the reasonableness of proxy models it may adopt.¹¹ Specifically, these models should be evaluated on the basis of whether or not:

- Technology is assumed to be the least-cost, most efficient and reasonable technology currently available.
- All network elements and functions have associated costs.
- Only forward-looking costs are included.
- Measurements of long-run costs, including the cost of capital, are included.
- Measurements of costs of serving all business and residential subscribers within a specified geographical area are included.
- Reasonable allocations for joint and common costs are included.
- The model is available to all interested parties.
- The model is capable of examining and modifying critical assumptions and engineering principles.

GSA believes these criteria may help reduce the inaccuracies of proxy models.

In addition, GSA notes that the 1996 Act requires carriers to contribute to universal service support on an equitable and nondiscriminatory basis.¹² Use of an unreasonable

¹⁰ 1996 Act, Section 254 (a)(2).

¹¹ Recommended Decision, para. 277.

¹² 1996 Act, Section 254 (b)(4).

model will not provide an equitable and nondiscriminatory distribution of universal service support. Therefore, GSA urges the Commission to examine all proxy models carefully to ensure that they accurately represent local conditions, and to allow the use of proxy models only when carrier costs are not available.

D. Support for Low-Income Consumers

Support for low-income consumers is provided primarily through federal and state contributions to the Lifeline and Linkup programs. These programs, which are designed to increase subscribership among low-income populations, provide both monthly subsidies and waivers of certain non-recurring charges. The Lifeline Assistance program reduces monthly recurring costs for telephone service by reducing or eliminating the SLC.¹³ The Linkup program reduces connection charges and security deposit amounts associated with initiating telephone service.¹⁴

The Board recommends extending the existing Lifeline and Linkup programs. For example, the Board recommends prohibiting carriers from disconnecting service for non-payment of toll charges incurred by persons eligible for the Lifeline and Linkup programs.¹⁵ Also, the Board recommends requiring carriers to include voluntary toll-blocking services

¹³ 47 C.F.R. Section 69.104.

¹⁴ *Id.*, Section 36.711.

¹⁵ Recommended Decision, para. 387.

with the core services they provide to low-income subscribers.¹⁶ The Board anticipates that with these changes, and additional changes it has recommended, the Lifeline and Linkup programs will advance universal service objectives more effectively.

GSA notes that while subscribership has increased nationally since the Lifeline and Linkup programs were initiated, some consumers still lack access to basic telephone service. GSA believes that the Lifeline and Linkup programs are important components of the overall universal service goals articulated in the Communications Act. Therefore, GSA urges the Commission to implement the Board's recommendations, and to take the necessary steps to ensure that funding obligations for these programs are assigned equitably among all carriers.

E. Services Included in Universal Service Support Mechanisms

The Board recommends that the "core" services supported by universal service support mechanisms include, at the minimum: voice grade access to the public switched network, including some usage; touch-tone or dual tone multi-frequency signaling (DTMF) or its functional equivalent; single-party services; access to emergency services, including 911 and E911, where available; access to operator services; access to interexchange services; and access to directory assistance. In addition, the Board recommends that low-income consumers also have access to toll-blocking services, where available.¹⁷

¹⁶ *Id.*, para. 384.

¹⁷ Recommended Decision, para. 4.

GSA concurs with the Board's recommendations because this list encompasses the minimum group of services that should be available to all consumers. GSA also notes that state regulatory agencies have required new carriers to provide these services as a precondition of receiving operating authority.¹⁸

As GSA indicated in its initial comments, toll-blocking services give consumers the ability to exercise control over their telephone usage.¹⁹ By providing low-income consumers with this ability, the Commission is removing an important barrier to increased subscribership among these consumers.

F. Competitive Bidding

In its Recommended Decision, the Board addresses the concept of competitive bidding for the right to provide service in high cost areas. However, the Board does not recommend that the Commission institute a competitive bidding system at the present time. Instead, the Board recommends that the Commission continue to investigate how a competitive bidding system should be structured to maintain high quality services, prevent collusion among carriers, and ensure competitive neutrality.

GSA supports the concept of competitive bidding for the right to serve consumers in high cost areas. A properly structured bidding system would reduce the support required

¹⁸ See Maryland Public Service Commission, Docket No. 8584, Phase II, December 1995; Pennsylvania Public Utilities Commission, Docket Nos. A-310203F0002, A-310213F0002, A-310236F0002, and A-310258F0002, October 1995.

¹⁹ GSA Comments, April 12, 1996, pp. 7-8.

to assist carriers in rural, insular and high cost areas, create incentives for carriers to improve efficiency, and reduce the costs associated with administering the universal service fund. Further, GSA believes a competitive bidding system could be structured to harness the efficiency of market forces without eroding service quality.

III. Responses to Questions in Public Notice

In its Notice, the Commission asked for comments on some issues not resolved in the Board's Recommended Decision. Specifically, the Commission asked for responses to specific questions in five areas: Principles of Competitive Neutrality; Support for Low-Income Consumers; Support for Schools and Libraries; Support for Health Care Providers; and, Administration of the Universal Service Support System. In this section, GSA responds to the Commission's questions relating to Administration of the Universal Service Support System.

- A. *Should contributions for high cost and low-income support mechanisms be based on interstate and intrastate revenues of carriers providing interstate services, based on factors enumerated in the Recommended Decision?*

As GSA explained in its previous comments, support for high cost areas should be obtained through a competitively neutral plan funded by carriers serving lower than average cost areas.²⁰ GSA recommends that a carrier's total unseparated loop costs be compared with a national benchmark established by the Commission to evaluate its need

²⁰ GSA Comments, April 12, 1996, pp. 4-6.

for support. To provide incentives, carriers would receive and provide support based on a percentage of local loop costs. The sliding scale, described in GSA's Comments, is consistent with Section 36.631 of the Commission's rules.²¹

Costs for non-rural carriers would be computed using proxy models, whereas the costs for rural carriers would be determined using embedded cost data. In both cases the carriers' costs in each region (defined with the same granularity as in the Recommended Decision) would be compared to the national benchmark. For most carriers serving a mix of urban and rural areas, contributions to the fund and the support from the fund would be largely self-canceling, so that only a small net payment would be required.

Support for low-income programs, in contrast, should be funded by a net revenue-based assessment on all carriers providing services. With this procedure, universal service support obligations would be assigned to all carriers based on each carrier's share of interstate and intrastate revenues net of payments to other carriers. Payments to other carriers should be excluded from this calculation to prevent double counting.

The funding mechanism for low-income subscribers should conform with the procedures recommended by the Board for programs benefiting schools, libraries and health care providers. Because all of these programs are designed to benefit a needs-based population, the funding mechanisms should be similar. Eligibility is determined

²¹ GSA Comments, April 12, 1996, pp.13-14.

based on need, often through means-testing, and not on the costs of providing services.

- B. Should the intrastate nature of the services supported by the high cost and low-income programs have a bearing on the revenue base for assessing funds?*

The nature of the services supported by the high cost and low-income programs should not determine the revenue base for the support programs. The revenue base should be determined only by the objectives of the program. For high cost programs, the source of support should be revenues from low cost areas.

GSA believes that the Lifeline and Linkup programs are important components of the overall universal service goals articulated in the Communications Act. The source of support for these programs should be total interstate and intrastate revenues, adjusted for payments to other common carriers for all services. This method would ensure that contributions from all carriers are made on an equitable and nondiscriminatory basis, as required by the 1996 Act.²²

- C. Should contributing carriers' abilities to identify separately intrastate and interstate revenues in an evolving telecommunications market and carriers' incentives to shift revenues between jurisdictions to avoid contributions have a bearing on this question?*

Under GSA's proposal, there is no need to differentiate between interstate and intrastate revenues, and thus no incentive to shift revenues between jurisdictions.

²² 1996 Act, Section 254(b)(4).

IV. Conclusion

As the agency vested with the responsibility for representing the customer interests of all Federal Executive Agencies, GSA urges the Commission to implement the Joint Board's Recommended Decision in the manner described in these Comments.

Respectively submitted,
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